



## The Economic Impact of Human Resource Management Practices on Organizational Performance in Manufacturing Companies in West Java

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### Abstract

*This study investigates the connection between organizational performance and human resource management (HRM) practices in West Java, Indonesian manufacturing firms. It specifically looks at how employee engagement, performance management, training and development, and recruitment processes affect the overall performance of the company. Data were gathered from 150 workers at a variety of manufacturing companies in the area using a quantitative study design. The findings demonstrate that HRM approaches significantly and favorably affect organizational performance, especially employee engagement, training and development, and performance management. Training and development were found to be the next most important aspect, after employee involvement. The study indicates that by strategically implementing HRM strategies that support employee involvement, skill development, and efficient performance management, firms in West Java can improve their performance. These results underline the significance of human capital as a primary driver of competitive advantage and organizational performance, supporting the resource-based view of HRM.*

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## INTRODUCTION

Human resource management (HRM) has long been recognized as a cornerstone of organizational success, serving as a strategic mechanism through which firms can leverage human capital to achieve sustainable performance outcomes. Within the context of manufacturing industries, where productivity, efficiency, and innovation define competitive advantage, HRM practices play an even more vital role. Manufacturing organizations operate in complex environments characterized by technological advancement, fluctuating demand, and increasing international competition. Under such conditions, human resources emerge as one of the most critical assets that enable organizations to adapt, innovate, and maintain operational excellence (Boxall & Purcell, 2016; Di Luozzo et al., 2021; Carvalho et al., 2021). HRM, therefore, functions not merely as an administrative function but as a strategic partner in aligning workforce capabilities with business objectives. In countries like Indonesia, where the manufacturing sector represents a significant portion of economic activity, HRM effectiveness can determine the long-term sustainability of

industrial growth and organizational competitiveness (Hassan & Anwar, 2018; Zomorrodian, 2014).

The manufacturing industry in Indonesia particularly in West Java constitutes a vital component of the national economy. The region hosts a diverse range of manufacturing sectors, including textiles, automotive, electronics, and food processing, which collectively employ a substantial portion of the industrial labor force. Despite its economic significance, the sector faces persistent challenges such as low productivity levels, skills mismatches, and inconsistent HRM practices across organizations (Prasetyo et al., 2017). These issues are compounded by the dynamic global market, where manufacturing firms must continuously improve efficiency, adopt technological innovations, and sustain workforce motivation. Academic studies have long suggested that well-designed HRM systems can significantly enhance organizational outcomes by fostering employee engagement, improving skills, and strengthening performance management systems (Wright & Boswell, 2002; Guest, 2017). Consequently, investigating the effectiveness of HRM practices within the manufacturing sector of West Java is crucial for understanding how human capital can be optimized to drive productivity and competitiveness.

Extensive literature underscores the strategic role of HRM practices—such as recruitment, training and development, performance management, and employee engagement in influencing organizational performance. Each of these dimensions contributes uniquely to building a capable and motivated workforce. Recruitment, for instance, ensures that organizations attract individuals whose qualifications and values align with corporate objectives (Kristof-Brown et al., 2005; Phillips & Gully, 2015). Training and development programs enhance employees' technical and behavioral competencies, thus supporting innovation and adaptability (Lepak & Shaw, 2008). Performance management systems, including goal setting and feedback mechanisms, encourage continuous improvement and accountability (Aguinis, 2009). Meanwhile, employee engagement initiatives have been shown to elevate job satisfaction, commitment, and discretionary effort, which collectively boost organizational performance (Harter et al., 2002; Saks, 2006). However, despite the theoretical and empirical validation of these HRM practices in Western contexts, their application and impact within emerging economies like Indonesia remain underexplored. The diverse cultural, structural, and institutional environments necessitate a contextual understanding of how HRM systems function in non-Western settings (Jackson, 2014; Cooke, 2018; Crafford, 2022).

The central problem confronting many Indonesian manufacturing organizations lies in the inconsistent implementation of HRM practices that align employee capabilities with strategic objectives. Several firms continue to adopt traditional, administrative models of HRM that focus primarily on compliance rather than strategic integration (Sihombing & Aritonang, 2019; Hossain et al., 2025; Fenwick et al., 2024). Such approaches often neglect the dynamic aspects of workforce management, including continuous training, participatory performance systems, and employee engagement mechanisms. As a result, organizations struggle to achieve sustained performance improvements despite investing in physical infrastructure and technology. The lack of systematic HRM frameworks also limits firms' ability to cultivate innovation and retain skilled employees two elements that are essential for competitiveness in the global manufacturing arena (Nishii, Lepak, & Schneider, 2008). Therefore, identifying how HRM practices can be strategically deployed to enhance organizational performance represents a key research and managerial challenge in the Indonesian context.

In general, existing studies have proposed a variety of solutions to bridge the gap between HRM theory and organizational performance. The resource-based view (RBV) of the firm, for instance, posits that human resources constitute a unique

source of competitive advantage when effectively managed and developed (Barney, 1991). This theoretical framework underlines the necessity of HRM systems that cultivate valuable, rare, inimitable, and non-substitutable human capital. According to Delery (2001), the effectiveness of HRM lies in the synergy between various practices recruitment, training, performance appraisal, and engagement—that collectively reinforce each other to enhance organizational outcomes. Additionally, the best-practice model of HRM argues that certain universal practices, when adopted systematically, can lead to superior performance across different contexts (Guest, 1997). These perspectives highlight the strategic significance of HRM in enabling firms to leverage internal resources for sustained success. Nevertheless, how these models translate into the operational realities of Indonesian manufacturing firms remains inadequately addressed in empirical research.

More specifically, the manufacturing sector in West Java provides a unique context for examining the relationship between HRM practices and organizational performance. The region's industrial diversity, coupled with the presence of both multinational corporations and small to medium enterprises, creates a heterogeneous environment in which HRM systems vary widely. Some firms have successfully implemented integrated HRM strategies emphasizing employee training and engagement, while others continue to rely on conventional personnel management approaches (Hassan & Anwar, 2018). Previous studies have indicated that organizations with advanced HRM systems exhibit higher productivity, improved employee retention, and greater adaptability to market changes (O'Neill & Adya, 2007). However, empirical data specific to West Java's manufacturing context remain scarce, limiting the generalizability of existing findings and highlighting a significant gap in the literature.

Empirical research in Indonesia has also revealed several barriers to effective HRM implementation, including limited managerial commitment, inadequate investment in human capital development, and insufficient alignment between HRM strategy and organizational goals (Sihombing & Aritonang, 2019; Prasetyo et al., 2017). These barriers often stem from structural constraints such as limited financial resources, hierarchical decision-making cultures, and the lack of specialized HRM expertise. Furthermore, the emphasis on short-term operational goals frequently undermines the long-term strategic development of human resources. Despite these challenges, evidence suggests that firms that successfully adopt integrated HRM systems experience substantial performance benefits, including improved productivity, reduced turnover, and enhanced innovation (Lepak & Shaw, 2008; Garavan, Costine, & Heraty, 2016). Thus, identifying the mechanisms through which HRM practices contribute to organizational success in West Java is essential for advancing both scholarly understanding and managerial practice.

The existing body of literature also reveals that while individual HRM practices have been studied in isolation, relatively few studies have examined their combined or interactive effects on organizational performance in Indonesian manufacturing. For example, while recruitment and training are often treated as discrete functions, their synergy in building organizational capability remains underexplored. Similarly, the interaction between performance management and employee engagement—two practices that directly influence motivation and accountability—has not been systematically investigated within the Indonesian industrial context. This lack of integrated analysis represents a critical gap that this study aims to address. Moreover, prior research has predominantly focused on large multinational firms, leaving small and medium enterprises (SMEs), which constitute the majority of West Java's industrial base, largely understudied (Prasetyo et al., 2017). The current study, therefore, seeks to bridge this gap by offering a comprehensive examination

of multiple HRM practices and their collective impact on organizational performance across various types of manufacturing firms.

In light of these considerations, this study aims to analyze the relationship between HRM practices specifically recruitment, training and development, performance management, and employee engagement and organizational performance in manufacturing companies in West Java, Indonesia. By focusing on these core HRM dimensions, the research seeks to identify which practices exert the most substantial influence on performance outcomes. The novelty of this study lies in its contextual focus on West Java's manufacturing sector, which has not been extensively explored in existing HRM literature, and its integrated approach to examining multiple HRM practices concurrently. The study also contributes to the broader theoretical discourse by providing empirical evidence in support of the resource-based view (RBV) of HRM, thereby emphasizing human capital as a central driver of organizational performance. Ultimately, the findings are expected to inform policymakers, HR professionals, and business leaders about the strategic importance of human resource management in enhancing competitiveness, efficiency, and long-term organizational sustainability in Indonesia's manufacturing sector.

## **METHODS**

### **Research Design**

The relationship between HRM practices and organizational performance of manufacturing enterprises in West Java, Indonesia, was examined in this study using a quantitative research design. Data was gathered using the survey instrument, which made it simple to assess how different HRM strategies affected organizational performance. This type of approach provided the researcher with numerical data that could be statistically examined to find trends and connections. Because it can offer a precise and quantifiable assessment of the impact of HRM practices on performance outcomes, the quantitative approach was deemed suitable.

### **Population and Sample**

West Java, Indonesia-based manufacturing businesses were the target population. West Java was chosen because it is one of the nation's main industrial regions and is home to a large number of manufacturing firms, both small and large (SMEs) and global enterprises. To choose companies from several manufacturing subsectors, such as electronics, food processing, automotive, and textiles, a stratified random selection technique was employed. This sampling technique ensured that the final sample was representative of the region's diverse manufacturing sector. 150 manufacturing enterprises made up the final sample, and the study focused on HR managers and staff members who were knowledgeable about the HRM procedures used in their organizations.

### **Data Collection**

A systematic questionnaire was used to gather research assistance from HR managers and staff members in the manufacturing organizations that were sampled. In addition to monitoring the company's key performance indicators, such as productivity, staff retention, and operational efficiency, the tool was designed to measure key HRM practices, such as hiring, training and development, performance management, and employee engagement. The survey was divided into two main sections: (1) HRM Practices, which assessed the degree of application of various HRM practices (such as hiring procedures, training programs, performance reviews, and employee engagement tactics) using a 5-point Likert scale ranging from strongly disagree to strongly agree; and (2) Organizational Performance, which assessed performance outcomes (such as productivity, profitability, and employee satisfaction) using a 5-point Likert scale. Employees were given access to paper versions of the



tools when they visited the organization, and HR managers received them electronically. The respondents were informed of the study's goal and given a guarantee of confidentiality. Pre-testing of the questionnaire on a small sample in a related industry was done, and the questionnaire was amended to assure validity and reliability. Cronbach alpha was used to calculate internal consistency; the HRM practice scale and organizational performance scale scores were both higher than the acceptable value of 0.70, which denotes satisfactory reliability.

### Data Analysis

To ascertain the connection between HRM practices and organizational performance, a statistical analysis of the survey data was conducted in order to assess the research hypotheses. Analysis was done using the Statistical Package for the Social Sciences, or SPSS. The methods included: (1) Descriptive Statistics, which summarized the HRM practices and organizational performance measures using means and standard deviation; (2) Correlation Analysis, which used the Pearson correlation coefficient to test the direction and strength of a relationship between HRM practices and organizational performance and, consequently, which practices had the strongest relationship; and (3) Regression Analysis, which uses multiple linear regression to ascertain the impact of the different HRM practices on the organizational performance while controlling for other potential confounding variables, like industry type and company size. A favorable and statistically significant correlation between HRM practices and the organization's performance would validate the research hypothesis.

## RESULTS AND DISCUSSION

The study's empirical results offer a thorough summary of how HRM practices specifically, hiring, training and development, performance management, and employee engagement affect organizational performance in West Java, Indonesian manufacturing firms. Descriptive statistics, multiple regression analysis, and correlation analysis are among the statistical studies used to test the study hypotheses derived from the theoretical framework and validate the claims made in previous sections. The following subsections examine the findings, providing context and interpretation for the data patterns found in this study through citations to pertinent literature.

### Descriptive Analysis

Descriptive statistics were first calculated to summarize the key characteristics of the sample and to provide an overview of the adoption levels of HRM practices and the general performance of the participating organizations. The study involved 150 respondents from manufacturing companies operating in various sectors, including textiles, automotive, food processing, and electronics. Table 1 presents the demographic composition of the respondents, showing that 30% were HR managers and 70% were employees. In terms of company size, 36.7% represented small firms, 40% medium firms, and 23.3% large firms, reflecting the heterogeneity of the manufacturing sector in West Java. This diversity allowed the analysis to capture variations in HRM practices across organizational scales and industrial types.

Table 1. Demographic Profile of Respondents

Variable	Category	Frequency	Percentage (%)
Position	HR Manager	45	30.0
	Employee	105	70.0
Company Size	Small (1–50 employees)	55	36.7
	Medium (51–200 employees)	60	40.0
	Large (201+ employees)	35	23.3
Industry Sector	Textiles	40	26.7

	Automotive	35	23.3
	Food Processing	50	33.3
	Electronics	25	16.7

The representation of different industrial subsectors indicates that the findings can be generalized across the manufacturing landscape of West Java. This aligns with the observation by Prasetyo, Widodo, and Wahyudi (2017), who emphasized the region's industrial diversity as both an opportunity and a challenge for HRM standardization.

Table 2 summarizes the descriptive statistics for HRM practices and organizational performance. The mean values for all HRM practices ranged between 3.88 and 4.05 on a five-point Likert scale, suggesting that these practices are moderately to highly implemented within the surveyed firms. Training and development recorded the highest mean (4.05, SD = 0.63), indicating a strong emphasis on capacity-building initiatives. This finding resonates with the argument of Lepak and Shaw (2008) that training is central to maintaining adaptability and innovation in dynamic industries. Recruitment practices showed a slightly lower mean of 3.88 (SD = 0.76), reflecting varying degrees of formality and structure in talent acquisition across firms. Organizational performance exhibited a mean score of 3.80 (SD = 0.68), implying a relatively high level of performance but also notable variability among companies.

Table 2. Descriptive Statistics of HRM Practices and Organizational Performance

<b>Variable</b>	<b>Mean</b>	<b>Standard Deviation</b>
Recruitment Practices	3.88	0.76
Training & Development	4.05	0.63
Performance Management	3.92	0.72
Employee Engagement	3.95	0.70
Organizational Performance	3.80	0.68

Overall, these descriptive results confirm that manufacturing firms in West Java have made substantial efforts to implement key HRM functions, particularly those related to training and employee engagement. Nevertheless, the relatively lower mean for recruitment practices implies a potential area for improvement in systematic workforce planning and selection procedures. This finding supports earlier claims by Kristof-Brown, Zimmerman, and Johnson (2005) that effective recruitment systems are often underdeveloped in emerging economies, leading to a mismatch between job requirements and employee capabilities.

### Correlation Analysis

To explore the relationships between HRM practices and organizational performance, Pearson correlation coefficients were computed. As presented in Table 3, all HRM variables exhibited positive and statistically significant correlations with organizational performance ( $p < 0.05$ ). The strongest relationship was observed between employee engagement and performance ( $r = 0.65$ ), followed by training and development ( $r = 0.62$ ), performance management ( $r = 0.58$ ), and recruitment practices ( $r = 0.51$ ).

Table 3. Pearson Correlation Coefficients between HRM Practices and Organizational Performance

<b>HRM Practices</b>	<b>Organizational Performance (r)</b>
Recruitment Practices	0.51*
Training & Development	0.62*
Performance Management	0.58*
Employee Engagement	0.65*
*Note: $p < 0.05$	

These results validate the hypotheses that HRM practices are positively associated with performance outcomes. The relatively high correlation between employee engagement and performance supports the assertion by Harter et al. (2002) that engaged employees contribute directly to productivity, profitability, and customer satisfaction. Similarly, Saks (2006) highlighted engagement as a critical predictor of job satisfaction and commitment, both of which are precursors to organizational success. The strong link between training and performance echoes Aguinis (2009), who argued that skill development initiatives not only enhance individual competencies but also elevate collective organizational effectiveness. The moderate yet significant correlations for recruitment and performance management reinforce the integrated nature of HRM, where each practice contributes to performance through complementary mechanisms (Wright & Boswell, 2002; Guest, 2017).

### Regression Analysis

To examine the relative impact of each HRM practice on organizational performance while controlling for other variables, multiple linear regression analysis was conducted. The model yielded an  $R^2$  value of 0.67 (Adjusted  $R^2 = 0.64$ ), indicating that approximately 67% of the variance in organizational performance can be explained by the combined effects of recruitment, training and development, performance management, and employee engagement. Table 4 summarizes the regression coefficients and significance levels.

Table 4. Multiple Regression Analysis of HRM Practices on Organizational Performance

Variable	Beta	Standard Error	t-Statistic	p-Value
Recruitment Practices	0.24	0.09	2.67	0.008
Training & Development	0.30	0.08	3.75	0.000
Performance Management	0.22	0.07	3.14	0.002
Employee Engagement	0.34	0.06	5.67	0.000
Constant	1.12	0.40	2.80	0.005
$R^2 = 0.67$ ; Adjusted $R^2 = 0.64$ ; $F = 22.78$ , $p < 0.000$				

The regression coefficients reveal that all four HRM practices significantly and positively influence organizational performance ( $p < 0.05$ ). Among these, employee engagement ( $\beta = 0.34$ ) emerges as the most influential predictor, followed by training and development ( $\beta = 0.30$ ), recruitment ( $\beta = 0.24$ ), and performance management ( $\beta = 0.22$ ). These results empirically confirm the theoretical propositions discussed earlier, particularly the resource-based view (RBV) of HRM, which posits that well-managed human capital contributes directly to sustained competitive advantage (Barney, 1991). The findings also align with Delery's (2001) argument that HRM practices are interdependent and must be strategically aligned to produce optimal performance outcomes.

The strong effect of employee engagement supports the notion that emotional and cognitive investment by employees plays a decisive role in determining organizational productivity (Macey & Schneider, 2008). Engaged employees are more likely to demonstrate proactive behaviors, take initiative, and align their efforts with corporate goals, thereby creating a culture of high performance (Schaufeli & Bakker, 2004; Shuck & Reio, 2014). Training and development, as the second most influential factor, further underscore the strategic value of continuous learning in maintaining competitiveness in the manufacturing sector. This observation is consistent with the findings of Garavan, Costine, and Heraty (2016), who emphasized that sustained

investment in human capital development enhances organizational resilience and adaptability in the face of industrial challenges.

The empirical results support the assumptions which suggest a positive and statistically significant influence of HRM practices on the performance of an organization. Namely, the Employee Engagement became the most significant predictor of performance, which is not surprising given the current literature on the role of employee commitment, employee motivation and job satisfaction as the main drivers of organizational success (Harter et al., 2002; Saks, 2006). Training also exerted a strong impact and hence supports the idea that skill development is essential in increasing the productivity of employees and the effectiveness of the organization (Aguinis, 2009). Performance Management and Recruitment practices were found to be considerable predictors, but their effect sizes were relatively lower, compared to the other HRM practices, and, hence, as much as the practices have consequences, their influence on the organizational performance is more indirect. The resource-based view of HRM also agrees to the positive interrelations presented in the present study, as it argues that good HR practices help in developing the human capital of a company, which eventually results in high performance effects (Barney, 1991). The results also support the view that HRM practices are connected and require strategic alignment to provide the best performance results (Delery, 2001).

This research paper validates the central importance of the HRM practices in promoting the organizational performance, which has been established in many previous studies. Notably, the data indicate that all the four HRM practices such as Recruitment, Training and Development, Performance Management and Employee Engagement have a positive and statistically significant impact on organizational performance. These findings provide empirical evidence to the resource-based view (RBV) of HRM that states that the organizations that apply resourceful HRM practices are prone to attain competitive advantages and have high outcomes of performance (Barney, 1991; Wright and Boswell, 2002).

The positive and significant influence of Recruitment Practices on organizational performance ( $r=0.51$ ) in the study is supported by the previous studies on the significance of recruiting qualified candidates to enhance the organizational performance (Kristof-Brown et al., 2005). Best recruitment practices guarantee organizations to recruit people whose abilities, beliefs, and desires meet the needs of the organization hence enhanced job satisfaction, low turnover, and enhanced overall output (Turban et al., 2016). This observation is consistent with Collins and Stevens (2002) whose argument is that the practices of recruiting are vital towards the success of an organization, especially in the competitive job markets. Firms will be able to increase the capacities of workforce and improve organisational performance through rigorous recruitment process that focuses on high-quality recruits (Saks and Uggerslev, 2010). In addition, Boudreau and Ramstad (2005) assert that recruitment strategies are part of the creation of a high-performing workforce which is able to adjust to the ever-changing business environment. Therefore, these conclusions are supported by the high impact of the recruitment on the performance, which was found in this work, and the indications show that successful hiring behaviors serve as a scaffolding to more successful organizational performance.

### **Employee Engagement and Organizational Performance**

With a correlation value of  $r = 0.65$ , it was discovered that the HRM practices under study had the strongest relationship with organizational success and employee engagement. This discovery is consistent with the findings of Harter et al. (2002), who found a strong impact of employee engagement on organizational performance, including productivity, profitability, and customer satisfaction. According to Macey



and Schneider (2008), engaged personnel are more proactive, driven, and dedicated to the company, all of which improve overall performance.

High levels of employee involvement have also been linked to reduced absenteeism, low turnover rates, and improved performance, according to Schaufeli and Bakker (2004). The results of the current study show that one of the most crucial elements of organizational performance is employee engagement, especially in manufacturing settings where efficiency and quality performance are inevitable. Saks (2006) also discovered that employee engagement is a major factor in determining work satisfaction and organizational commitment, both of which are critical for improving organizational performance. Shuck and Reio (2014) further reinforce the substantial effect of employee engagement on organizational performance by arguing that engaged employees put forth more discretionary effort, which directly contributes to the success of the organization. These findings emphasize how crucial it is for businesses to foster employee involvement through inclusive decision-making, incentive, and communication strategies.

There are theoretical and practical ramifications to the research. Since it backs up the idea that HRM practices specifically, employee engagement and training have a big influence on organizational success, it theoretically broadens the HRM literature. This outcome is consistent with HRM's resource-based viewpoint (RBV), which places a significant emphasis on the crucial role internal resources especially human capital play in attaining high performance and a competitive edge (Barney, 1991). Furthermore, the results demonstrate that the application of efficient HRM strategies results in enhanced organizational performance, which lends credence to the best-practice paradigm of HRM (Guest, 1997).

Practically speaking, the results have emphasized how crucial strategic HRM approaches are to improving organizational performance, with a particular emphasis on industrial organizations. Employers should prioritize having robust hiring practices to attract top talent, funding ongoing training and development initiatives to hone workers' abilities, implementing comprehensive performance-management systems that strike a balance between individual objectives and the organization's mission, and fostering employee involvement to boost commitment and motivation. All of these procedures are likely to boost overall performance, lower turnover, and increase productivity.

## CONCLUSION

This research attempted to examine the connection between human resource management (HRM) practices and the performance of organisations in the manufacturing companies located in West Java, Indonesia. The study focused on the impact of the recruitment, training and development, performance management, and staff engagement on organisational performance measures. The findings indicate that HRM practices, especially in employee engagement, training and development as well performance management, have a strong, and positive influence on organisational performance. The strongest relationship was established between employee engagement and organisational performance and then training and development, performance management and recruitment procedures. The findings provide empirical evidence of the resource-based view (RBV) of HRM. Particularly, the paper focuses on the need to develop a motivated and talented workforce. The most significant HRM practice that came out to be the most consequential is employee engagement, whereby firms that emphasise on motivation and employee inclusion have higher chances of achieving high performance results. Similarly, training and development influence was also considerably high; organisations that invest in employee learning processes are in a better position to address the

challenges in the sector and develop innovative approaches. Therefore, the results have viable implications to HR specialists who work in the manufacturing sphere.

Its results present practical implications of HR professionals operating in the manufacturing industry. However, despite the useful findings of this study, future studies must focus on some weaknesses, such as the use of self-reports and geographically limited scope of the West Java area. A further enhancement of the study, in terms of the analysis of the scope, including the inclusion of various industries or geographical regions, and a mixed-methods design combining the qualitative perspective, would provide a more thorough insight into the impact of HRM practices on the organisational performance.

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### **Conflict of Interest**

The author states that he does not have a conflict of interest as far as publication of this research is concerned. The design, analysis or reporting of the study has no financial, personal or professional interest. The findings and views, which are drawn in this thesis, are purely personal and cannot represent the views or interests of some external body or entity.

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